Overview

Introduction

The last three budgets (FY 2009-11) have been prepared and executed during a time of unprecedented financial uncertainty. Tough choices have been made to continue our commitment to good fiscal management while still focusing on community priorities. Foremost in impact, constantly changing economic conditions impacted our revenue. Just as the FY 2009 Adopted Budget was completed in the fall of 2008, we began to see the economy decline and the real estate market plummet. We immediately started to research and regularly review the national and state economy, as well as our local economic picture. The City organization began strategizing and developing creative solutions to balancing the budget not just for one fiscal year, but for the foreseeable future.

Budget Balancing Approach: A Three-Year Strategy

As Council recalls, the FY 2011 Budget was proposed as a three-year strategy for reducing our structural imbalance to zero. This approach included three areas of focus: the so-called "three-legged stool" to achieve structural balance in the budget. The three areas were expenditure reductions, service delivery adjustments, and revenue enhancements, as shown in the table below from the FY 2011 Proposed Budget presentation. The following discussion will highlight the steps taken toward implementing these strategies.

FY 2011	FY 2012	FY 2013	FY 2014
Expenditure Reductions	Expenditure Reductions	Expenditure Reductions	Expenditure Reductions
Service Delivery Adjustments	Service Delivery Adjustments	Service Delivery Adjustments	Service Delivery Adjustments
Revenue Enhancements	Revenue Enhancements	Revenue Enhancements	Revenue Enhancements
Solve 50% of Structural Imbalance	Solve 75% of Structural Imbalance	Solve 100% of Structural Imbalance	

However, prior to discussing FY 2011 and beyond, it is important to note the steps taken during FY 2009 and FY 2010 to address issues facing the City during those years.

FY 2009

During FY 2009, revenues presented ongoing challenges for the City, primarily with regard to sales tax receipts, which declined 1.4 percent from FY 2008 levels. This resulted in two separate phases of budget reductions during the year. Phase I, implemented in November 2008, resulted in the elimination of 14 General Fund positions and saved a total of $1.1 million. Phase II, implemented in February 2009, resulted in the elimination of 16 additional General Fund positions and saved another $1.4 million.

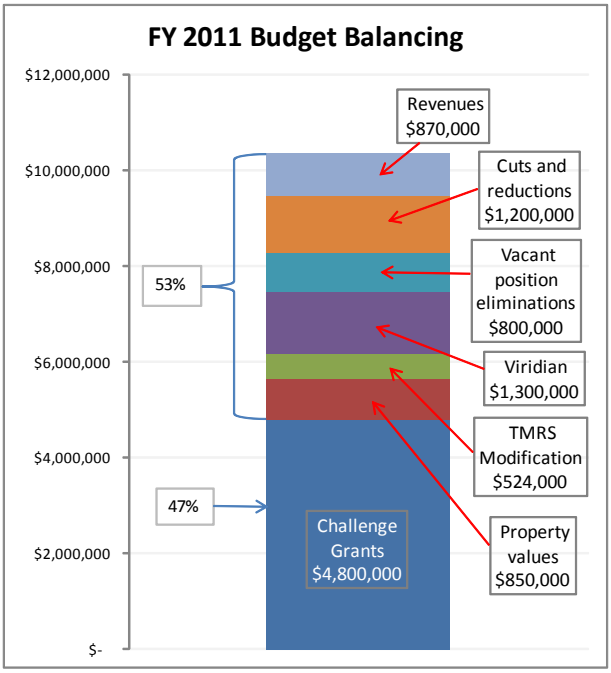
Overview

FY 2010

During FY 2010, sales tax receipts exhibited a modest recovery, increasing 1.7 percent from FY 2009 levels. However, for the first time in over a decade, the assessed value of City property declined from the previous year. With a decline in the largest source of revenue for the General Fund, additional staffing reductions were implemented that eliminated 22 positions in the proposed FY 2010 Budget for the General Fund.

FY 2011

FY 2011 continued to be a difficult year to budget. While the national economy is certainly in better shape than this time last year, local governments tend to lag behind recoveries by 12-24 months. The revenue outlook presented significant challenges in FY 2011. Assessed property values fell 5.7 percent from the previous year, an unprecedented decline that resulted in the loss of approximately $5.9 million in budgeted General Fund revenues. However, due to prudent fiscal planning and stronger-than-anticipated reserves, we were able to identify a total of $4.8 million in one-time funding to implement the first year of Challenge Grants. The sources of funding for these grants, which collectively are called the Business Continuity Reserve (BCR), include $1 million from the Workers Compensation Fund, $2.47 million from General Fund undesignated fund balance, and $3.42 million from the General Use Gas Fund. Together, these sources established the BCR at $6.89 million, of which $4.8 million was used in FY 2011.



The accompanying graph shows 53 percent of our structural imbalance having been resolved in FY 2011 (the first year of our three-year plan, which envisioned addressing 50 percent of the imbalance) through recurring expenditure reductions and revenue enhancements. The remaining 47 percent was covered through the Challenge Grant funding, as the graph also illustrates.

FY 2012 and Looking Forward

Revenues for FY 2011 are showing modest improvement, with sales tax receipts currently up 7.4 percent from last year's levels. However, it is still too early to predict the course of property valuation; many experts are predicting continued declines. Our proposed budget for FY 2012 will be guided by the change in City property values, our best estimates on the direction of sales tax receipts, and our continued efforts to restructure the organization to maximize efficiency and preserve service delivery to our citizens. As illustrated by the table on the first page, the goal will be to eliminate another 25 percent of our structural imbalance in FY 2012, and the remaining 25 percent in FY 2013.

Overview

Every budget is the product of considerable thought and organizational energy. Every revenue source has been analyzed and reanalyzed; every program has been reviewed and debated for reduction or elimination; and every budget addition has been critically considered relative to its priority. We all believe that in crisis there is opportunity. As the Chinese proverb says "Crisis is an opportunity riding on a dangerous wind." We are continuing our strategic efforts to seize opportunities for restructuring services, making the "right" investments, realigning our services with the new realities, seeking out partnerships, and looking for new revenue opportunities.

When the first sign of trouble appeared in mid 2007 with Bear Sterns reporting the collapse of two hedge funds, Arlington's economy was strong, bolstered by development activity related to the new Cowboys Stadium and a steady housing market. However, as 2009 progressed, the local economy started to feel the impacts of the recession and by the time the Department of the Treasury took control of Fannie Mae and Freddie Mac in September 2009, unemployment showed no signs of discontinuing its steady rise, and development activity had seen a rapid descent. When the City rang in the New Year, it was with warning bells, as Arlington saw a significant increase in not only the unemployment rate, but also signs that foreclosure listings and bankruptcy filings were on the rise as consumers struggled to deal with the prolonged downturn in the economy.

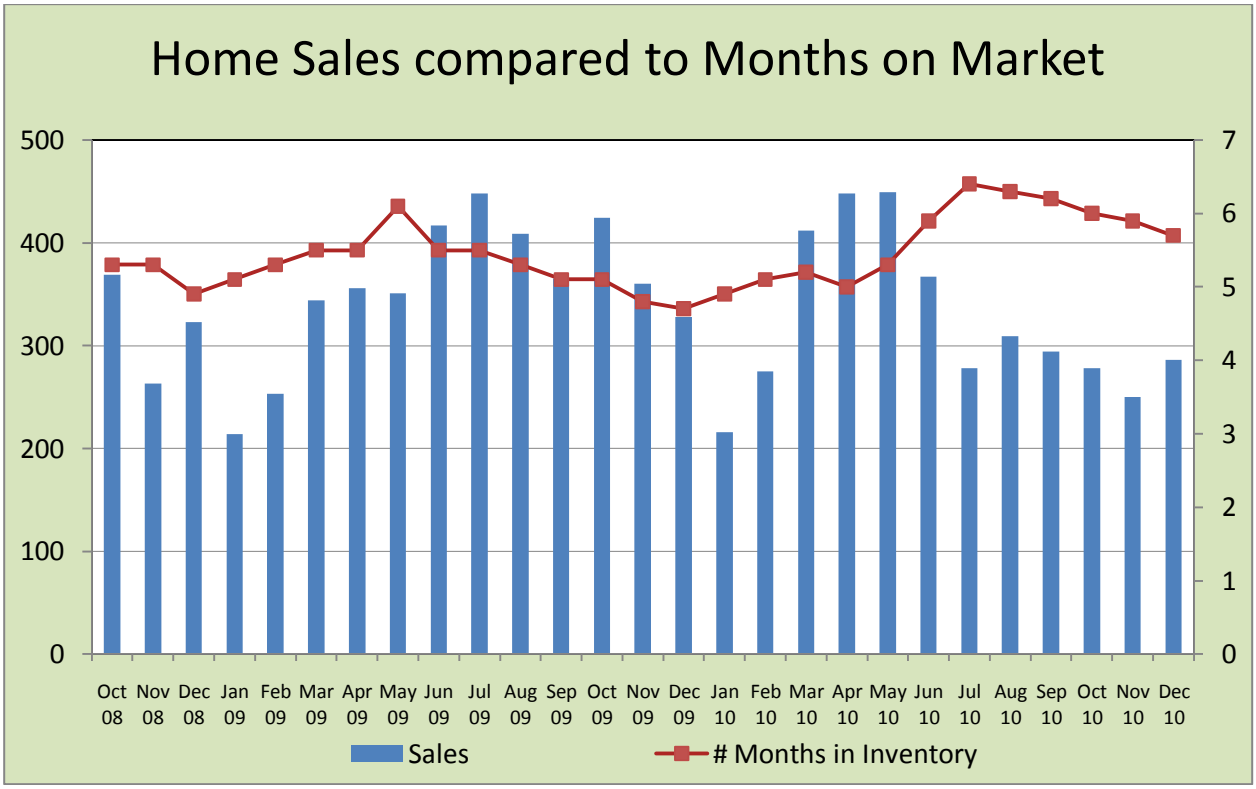
The specter of a double dip recession has not disappeared. Sales taxes appear to be increasing, but at a slow pace. By now, everyone is familiar with the economic situation facing the country; however, it is important to update some of the macro-economic indicators.

Overview

Economy

Housing

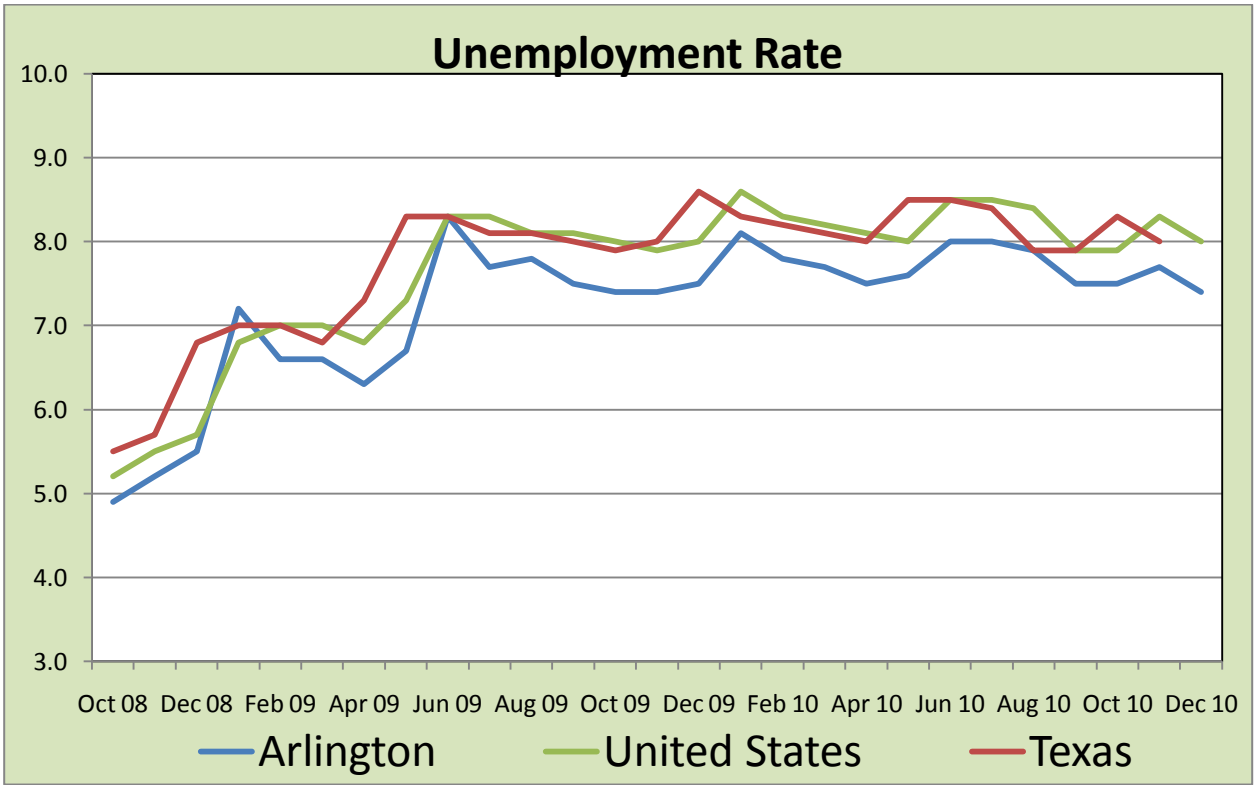
Residential development slowed dramatically as a response to rising construction costs and greater restriction on investment opportunities. Despite this decrease in building activity, the housing market is a significant area of strength in the local economy. Arlington's housing market had not seen the same over-inflation of home prices as other parts of the nation, so home prices have remained relatively level throughout the economic crisis.



While the Homebuyer Tax Credit made noticeable difference between March 2009 and December 2009, and then again after its extension until June 2010, there is no additional extension of this credit in sight at this time. This will likely return overall home sales to a slower pace, with the typical seasonal ups and downs.

Unemployment

According to a recent report for the Texas Comptroller's office, going into 2011, more than half of the jobs in Texas that were lost during the recession have already been recovered, this due in part to Texas having a shorter recession period and recovering more quickly. This is a significantly higher rate than the nation as a whole, wherein only 13.4% of jobs lost during the recession have been recovered.

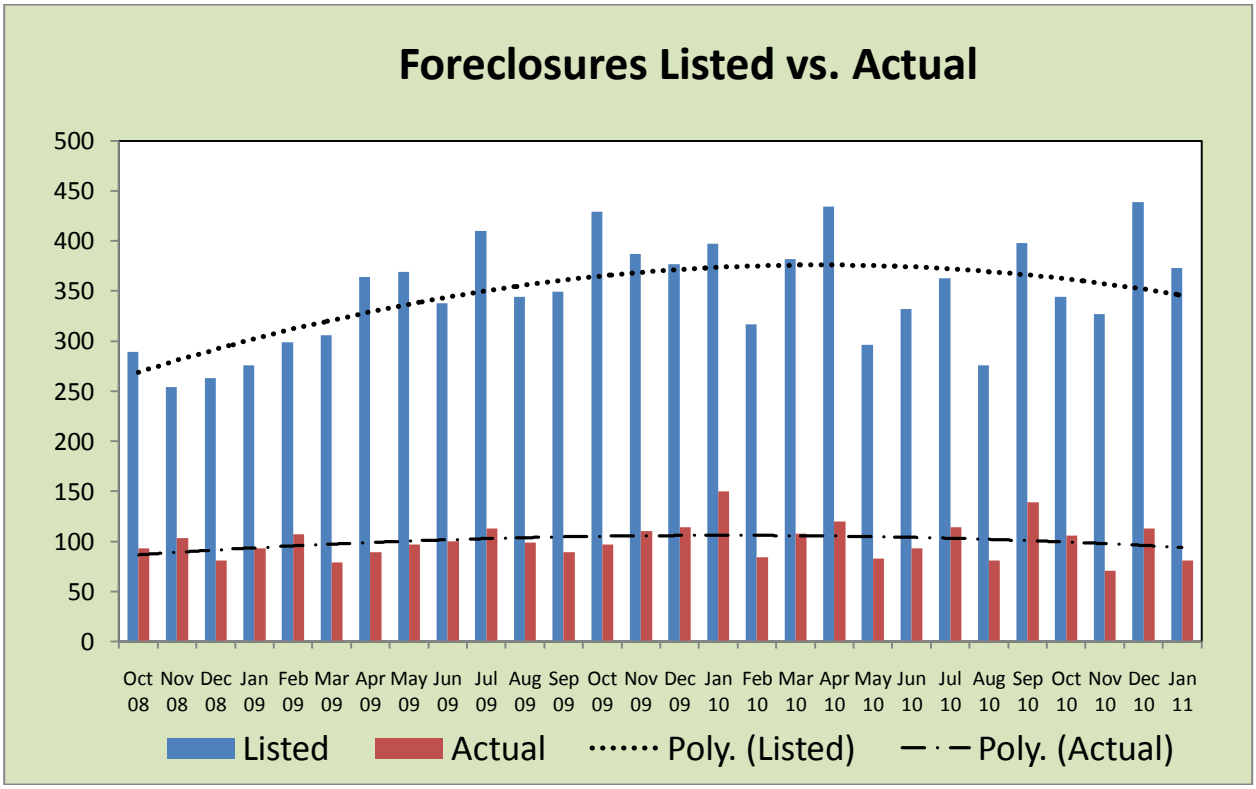


As shown in the chart above, since October 2008, the unemployment rate in Arlington has climbed to the June 2009 high of 8.3% and back down again to 7.4% in December 2010. During the same time, the State followed a similar path, starting out with 5.5% unemployment in October 2008, hitting a high of 8.6% in January 2010, and falling back down slowly to end the year with 8.0% in December 2010. In general, the National average stayed closer to the State levels throughout most of this time period, but January 2009 found Arlington's rate to be higher than both the State and the Nation.

Overview

Consumer Activity

Big businesses are not the only ones looking for assistance in this time of crisis. A side effect of the recession, and particularly rising unemployment, is that households are no longer able to make ends meet. This is reflected in the area of foreclosures. As families continue to struggle with mortgage payments no longer within their reach, banks are forced to take legal action.



The chart above shows how the foreclosure listings for Arlington grew significantly for the two years between October 2008 and October 2010, and is just starting to show signs of slowing. A promising sign for our residents, however, is that the number of houses that go through the entire foreclosure process (listed as actual foreclosures) has not increased significantly, indicating that banks and mortgage companies are finding ways to keep people in their homes for as long as possible.

What Effect on Arlington?

General Fund Tax Revenues

Sales tax revenues were budgeted at $48,223,154 in FY 2009. The actual revenues were $45,360,894, a loss of 6% or nearly $2.9M. FY 2010 remained at about this level from a budget standpoint, and at the end of the year actually saw a modest increase of 1.7%. It is important to note that this increase was due largely to activity in the entertainment district, resulting from the construction of Cowboys Stadium. Without the critical economic stimulus surrounding this project, sales tax receipts would have continued to decrease. During the budget process preceding FY 2011, sales tax receipts began a modest rise. The FY 2011 estimate included a 3.3% increase from the FY 2010 budget. Most of this revenue increase was directly attributable to Super Bowl XLV. However, the current year estimate is even higher, approximately $48M, due to an excellent first quarter. While sales tax, at least presently, is making a comeback, it is not back to the levels on which the FY 2009 budget was based.
Property tax receipts remained strong in FY 2009, but the City saw its first decline in property values since 1993. The decrease was only .4%, and had been expected to be much larger based on discussions with the Tarrant Appraisal District and monitoring economic conditions. This relief was short-lived, as the FY 2011 certified appraisal was 5.7% below the FY 2010 appraisal. The City has an unwritten, but firm, commitment to a tax rate of $.6480 per one-hundred dollars of valuation. When this is coupled with maintaining our Capital Improvement Program at acceptable levels, the General fund actually saw a 7.5% decrease in revenue, or approximately $5.9M. To put this in perspective, at current projection it will be FY 2019 before property tax revenues in the General Fund return to FY 2009 levels.

General Fund Expenditures

At first glance, the FY 2011 budget (198M) does not differ significantly from the FY 2009 budget (198.5M). However, the basis for developing the two is remarkably different. The FY 2009 budget had $2.7M in one time expenditures, making the recurring portion $195.8M. The FY 2011 budget has $4.8M in Challenge Grant items, $1.2M in one time expenditures, and $3.2M in expenditures directly related to the Super Bowl. Once those are removed, the FY 2011 budget supported by recurring revenues $189.8M, a reduction of 3.2% or $6M. Even this, to some degree, understates the impact of the reductions as additional personnel costs, such as TMRS full funding and increasing health care costs, force benefit expenses upward.

In FY 2009, the budget had 1,795 positions, in FY 2011, 1,725 positions, an overall reduction of 70. Many of these were sworn positions transferred to grants, but most departments have seen some reduction in head count, or transferred to other funding sources. Furthermore, 49 positions are at risk in Challenge Grants, and while three positions have been vacated and will be eliminated in FY 2012, there are still difficult decisions and creative solutions that need to occur.

In conclusion, across all revenue sources, the City has seen a decrease of $5.4M from FY 2009 Adopted Budget. Additional revenue losses are expected in FY 2012, resulting in a deficit of $2.6M, which does not include $2.4M continuing in the Challenge Grant program for another year. A tremendous amount of effort and cooperation must occur to continue delivering services to citizens in an environment where economic gains are not keeping pace with the needs of our citizenry.

Overview

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